

5.0

Remuneration report

Shareholder letter

Dear Shareholders

It is with pleasure that as Chairman of the Human Resources Committee I present to you the 2013 remuneration report of OC Oerlikon Corporation AG, Pfäffikon.

In addition to the regular activities of the Human Resources Committee that are described in detail in the remuneration report, the previous year was characterized primarily by the preparation of two important decisions:

Firstly, after a diligent selection and nomination process, the Board of Directors approved the appointment of Dr. Brice Koch as Chief Executive Officer (CEO) beginning on January 16, 2014. His breadth of experience will guide Oerlikon to the next level of our company development. He has already begun to shape this development with the extension of the Executive Committee effective February 11, 2014.

Secondly, the new Swiss law regarding say-on-pay (the Minder Ordinance) was released on November 20, 2013, and came into force on January 1, 2014. This will lead to the individual election by the shareholders of the Chairman of the Board, the members of the Board and the members of the Human Resources Committee for a term of one year at the 2014 Annual General Meeting (AGM). While the implementation of the Ordinance allows for a transition period of two years, for several key elements, the Board has decided to adopt the most important ones at the 2014 AGM.

Hence, at the 2014 AGM, the Board will propose:

- amendments of the Articles of Association, to comply with the legislation;
- a binding vote on the maximum amount of total compensation of the Board of Directors for a term of office from the 2014 AGM to the 2015 AGM;
- a binding vote on the maximum amount of fixed compensation of the Executive Committee for the period starting on July 1, 2014, and ending on June 30, 2015.

In addition to these new votes, the aggregate amount of variable compensation of the Executive Committee for the financial year 2014 will be put to a binding vote at the 2015 AGM.

Further, in line with the recommendations of the Swiss Code of Best Practice for Corporate Governance, the Board will also propose at the 2014 AGM to approve the 2013 remuneration report in a non-binding consultative vote, as it has since 2011.

There is no doubt that these changes add some complexity to the voting process at each AGM, but they also allow more direct shareholder involvement in the remuneration framework of the company.

February 25, 2014

Sincerely



Tim Summers

Chairman of the Human Resources Committee

Compensation policy

Attractive, motivating, fair and simple compensation for all staff is the foundation of Oerlikon's performance-based corporate culture. Compensation for the Board of Directors and the Executive Committee is made up of various components, which are described in detail in this report. This section discloses a summary of the following aspects for 2013:

- General principles of the compensation policy
- Setting and approving compensation
- Compensation system and compensation paid to the Board of Directors in 2013
- Compensation systems applicable to management (including the Executive Committee)
- Compensation paid to the Executive Committee in 2013

With this remuneration report, Oerlikon meets the requirements of Art. 663bbis and 663c(3) of the Swiss Code of Obligations (CO) and Para. 5.1 of the Annex to the Corporate Governance Directive (DCG) of the SIX Swiss Exchange, governing the disclosure of remuneration systems and compensation paid to members of the Board of Directors and the Executive Committee. Moreover, in regard to remuneration reporting, Oerlikon voluntarily complies with economiesuisse's Swiss Code of Best Practice for Corporate Governance. Oerlikon prepares its consolidated financial statements in accordance with IFRS (International Financial Reporting Standards). These regulations require different interpretations and presentations, where appropriate (see also Notes 21 and 22).

The compensation systems provide competitive base salaries and attractive incentive schemes. They give equal consideration to individual and company performance, reward Excellence and promote an entrepreneurial attitude.

To determine competitive and equitable compensation, Oerlikon uses external and internal benchmarks. The company establishes its external equity by continuously surveying the markets in which it operates, and its internal equity is established by following a Performance Management process. Performance Management is a crucial element in assessing the achievement of expectations and targets in relation to individual and business results.

Determining compensation

The Human Resources Committee supports the Board of Directors in all matters relating to the compensation and Performance Management systems in place at Oerlikon, in particular:

- the compensation policies for members of the Board of Directors, the Executive Committee, the Executive Leadership Team and Group-wide managerial and non-managerial staff;
- the annual pay plan for the Group (including general salary increases);
- the objectives for the CEO and assessment of performance;
- the performance assessment of Executive Committee members by the CEO.

The compensation policies for the Board of Directors, the Executive Committee and the Executive Leadership Team require an ongoing review of whether or not the compensation offered is:

- competitive, transparent and fair, by analyzing comparable companies and salary trends in the market;
- commensurate with the company's results and individual performance;
- consistent with Oerlikon's values and long-term strategy.

This review forms the basis for the Board of Directors to approve in:

- December, the target compensation of the members of the Board of Directors, the Executive Committee and the Executive Leadership Team for the following year;
- February, the target achievement and variable compensation of members of the Board of Directors and the Executive Committee for the past year;
- March and November, Long-Term Incentive (LTI) grants, i.e. participants in equity programs and share awards allocated to them.

With the implementation of the new Swiss law regarding say-on-pay (Minder Ordinance), the approval of the Board and Executive Committee compensation will transfer from the Board of Directors to the Annual General Meeting of Shareholders as of 2014. The timing of approving variable compensation (STI and LTI) will also be shifted to the date of the AGM.

Approval process

Decision on	Prepared by	Set by	Approved by
Compensation of members of the Board of Directors (incl. Chairman)	Chairman	Human Resources Committee	Board of Directors
Compensation of the CEO	Chairman	Human Resources Committee	Board of Directors
Compensation of members of the Executive Committee	CEO	Human Resources Committee	Board of Directors
LTI allocations	CEO	Human Resources Committee	Board of Directors

The Chairman of the Board of Directors is present at the meeting when decisions are approved by the Board of Directors, including his own remuneration. In his role as Chairman of the Human Resources Committee, he is also involved in the determination of Board remuneration, including his own. Members of the Board of Directors, other than those of the Human Resources Committee, do not participate in determining the remuneration of Directors.

The CEO, or other members of the Executive Committee, are neither involved in the determination of their remuneration nor are they present when the Board of Directors approve it.

Board of Directors

Compensation system – Board of Directors

The compensation system applicable to the members of the Board of Directors consists of a fixed cash component and of a fixed grant value restricted stock units (RSU). The cash component depends on the responsibility, complexity and requirements of the tasks assumed. Each task is remunerated differently and the compensation components are cumulated, depending on the number of tasks assumed by each member, as per the chart below. The level of compensation for each of the components is set by the Human Resources Committee (HRC), taking into account the expenditure of work required from Board and Committee members. Board remuneration is reviewed against external benchmarks on an annual basis. In 2013, a survey of the 28 peer companies listed on page 82 was conducted by PwC and confirmed the compensation levels to be appropriate. The members of the Board of Directors are remunerated for their service from the date of their election and for the duration of their term of office.

Cash compensation

in CHF 000	Compensation	Expense allowance
Member of the Board of Directors	75	5
Chairman of the Board of Directors	75	10
Chairman of a Committee	50	
Member of a Committee	30	

The compensation is reviewed by the HRC on an annual basis and, if necessary, adjusted by the entire Board of Directors based on a proposal by the HRC. No changes to the compensation for members of the Board of Directors were made in 2013.

The grant value of the RSU is fixed (CHF 125 000 per Board member and CHF 280 000 for the Chairman of the Board). The number of RSU is determined by dividing the fixed grant value by the volume-weighted average share price (VWAP) over 10 trading days immediately following the date of the release of the previous year's annual results. RSU are blocked from the date they are granted at the Annual General Meeting of Shareholders until the following Annual General Meeting of Shareholders, at which time they are converted into Oerlikon shares. For Directors resigning their mandate prior to the end of the term, the number of RSU converted into Oerlikon shares is determined at the sole discretion of the Board of Directors. The RSU program is financed with treasury shares. For a detailed overview please see Note 21 (page 133).

Compensation 2013 – Board of Directors

No member of the Board of Directors served in an executive role in 2013. Total compensation paid to the eight non-executive members of the Board of Directors in 2013 was CHF 1.7 million, a reduction by 23% compared to the previous year. Since all components are fixed, no ratio between fixed and variable compensation is presented.

Compensation of non-executive members of the Board of Directors

in CHF 000	Board of Directors	Strategy Committee	Audit Committee	HR Committee	Cash	Restricted Stock Units (RSU) ¹	Other ²	Total compensation 2013	Total compensation 2012
Tim Summers	C	C		C	175	238	43	457	517
Kurt J. Hausheer	M		C		125	106	20	252	283
Mikhail Lifshitz ⁴	M		M		70	106	10	186	
Hans Ziegler	M	M		M	135	106	24	266	288
Carl Stadelhofer	M		M ⁴	M	125	106	24	255	260
Gerhard Pegam	M	M			105	106	5	216	243
Reyad Fezzani ³	M		M		35			35	166
Wolfgang Tölsner ³	M		M		35			35	373
Total					805	770	127	1702	2130

C(hairman), M(ember)

¹ The RSU grant for 2013 is based on a fair value at grant date of CHF 10.8. In previous years, disclosure used an accounting perspective that presented the costs of all grants for the reporting period. In preparation for a binding vote on compensation, disclosure is changed to present the total value of grants issued in a reporting period. The effect of this change on the reported numbers of the previous year is insignificant.

² Other compensation consists of social security contributions and expense allowances paid by OC Oerlikon Corporation AG, Pfäffikon.

³ Until April 30, 2013.

⁴ As of April 30, 2013.

Members of the Board of Directors did not receive any fees or other remuneration for additional services to OC Oerlikon or its subsidiaries in the 2013 business year. Neither OC Oerlikon nor its subsidiaries granted any guarantees, loans, advances or credit facilities to members of the Board of Directors or related parties in 2013.

No compensation was paid to any former members of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon, or a Group company in 2013.

Management

Compensation system – Management

The compensation system for management staff, including the CEO, the Executive Committee, the Executive Leadership Team, as well as other management functions (Global Leaders) consists of fixed and variable components. The fixed component entails a base salary commensurate with the role and local market level and, depending on role and local practice, includes allowances. The variable component entails an annual cash bonus (Short-Term Incentive). In addition, Global Leaders consisting of 96 management staff participate in a three-year equity program (Long-Term Incentive). The mix between these components is defined by the profile, strategic impact and pay level of the role, as described hereinafter.

Short-Term Incentive (STI) program 2013

The Oerlikon Short-Term Incentive (STI) program is a simple and clear annual cash bonus aimed at motivating eligible managers and specialists to focus their efforts on specific financial and individual objectives. It helps them to align their efforts, promotes initiative and contributes to the performance of individuals and the company.

The STI program for Global Leaders, including the CEO, the Executive Committee and the Executive Leadership Team, consists of financial and individual objectives as well as strategic milestones. Financial objectives (such as Sales, EBIT Margin and return on net assets (RONA)) account for 70%, individual objectives for 15% and strategic milestones for 15% of the target bonus.

The STI for management staff and specialists consists of financial and individual objectives. Financial objectives make up 70% and individual objectives 30% of the target bonus.

Financial objectives are set for each business on Group, Segment and Business Unit level and are aimed at increasing the growth, profitability and cash efficiency of the respective business.

Strategic milestones are defined for the Group, Segments and regions and focus on the timely and incremental achievement of medium and longer-term business objectives.

Individual objectives are agreed upon between each plan participant and their manager, in order to define concrete and measurable targets that the plan participant is responsible for achieving. For Global Leaders, including the Executive Committee, they include the improvement of health, safety and environment at performance throughout the Group.

The Board of Directors approves the financial objectives, strategic milestones and individual objectives of members of the Executive Committee, including the CEO, at their meeting in December.

Financial targets are based on the annual budget and the payout on the actual financial results. A financial result at target corresponds to a payout of 100% of target bonus, at the lower threshold 50%, and below the lower threshold 0%. No upper threshold exists for financial objectives, while strategic milestones and individual objectives cannot exceed 100% of target bonus. The Human Resources Committee will finally assess the overall bonus payout, based on factual business circumstances and reasonable business judgment in order to achieve a fair result originated from true performance, and will make a recommendation to the Board of Directors for a final discretionary decision in February.

Long-Term Incentive (LTI) program 2013

The Oerlikon Group aims to manage its business portfolio efficiently in order to create added value for its shareholders. To meet these ambitious goals, it is essential that the Oerlikon Group is able to attract, motivate and retain key employees. The Board of Directors therefore decided to issue a 2013 grant of the long-term Performance Share Plan for the Oerlikon Group's Global Leaders to reward the increase in total shareholder return (TSR) relative to that of peer companies. The Board of Directors decides every year on issuing a new grant under this program which has been in place since 2012.

The LTI program is based on performance conditions measured over a period of three years from January 2013. The performance conditions are based on Oerlikon's TSR within a comparator group over a three-year period. The peer group is reviewed every year by the Human Resources Committee. List of companies:

Swiss					
Industry Group	Industry Group	Manmade Fibers	Drive Systems	Vacuum	Coating
ABB	General Electric	Jingwei	American Axle	Atlas Copco	Bodycote
Sulzer	Siemens	Lakshmi	Brembo	Gardner Denver ¹	Kennametal
Georg Fischer	GEA	Rieter Textile	Carraro	INFICON	Praxair
	Sumitomo	Schweiter	Dana	Ingersoll Rand	Sandvik
	ThyssenKrupp		Bharat Gears	Pfeiffer Vacuum	
			BorgWarner		

¹ Gardner Denver was delisted in 2013. The comparator group will be maintained with the remaining companies for the LTI plans 2012 and 2013.

TSR is a standard metric used for measuring stock performance. It is defined as the net change in share price plus any dividend distributions over a period of time. In this case, the performance period is three years.

TSR is measured with a starting value of the VWAP over the first 30 trading days of the first year and an ending value of the VWAP over the last 30 trading days of the third year. The rank of Oerlikon's TSR at the end of the performance period determines the effective number of Performance Share Awards (PSA). Participants can elect at the beginning of the program whether the effective number of PSA is fully converted into shares or whether 70% are received in shares and 30% are sold upon vesting to receive the corresponding value in cash.

At Rank 3 of 28 the peer group or above, a maximum payout of 200% of target performance share awards (PSA) is converted into shares. At Rank 10 of the peer group, the payout is 100%, at Rank 15 it is 80% and at Rank 20 or below, it is 0%.

In 2013, the CEO, members of the Executive Committee and Global Leaders received a portion of their compensation in the form of awards of OC Oerlikon Corporation AG, Pfäffikon, stock. The LTI program is financed with treasury shares. For a detailed overview please see note 21 (page 133)

Shareholding requirement

To further align the interests of the Executive Leadership Team (ELT) and shareholders, the CEO, members of the Executive Committee, Segment CEOs and selected Corporate Functions are required to build a significant personal shareholding in the business.

For each role, a minimum target number of shares should be attained by the relevant individuals. The minimum threshold is a percentage of annual base salary.

Role	% of base salary
CEO	200 %
Members of the Executive Committee	100 %
Segment CEO	100 %
Corporate Function	50 %

Current members of the ELT are required to reach their minimum investment limit within a period of five years. The shareholding of the individuals is reviewed regularly. New members of the ELT have five years during which to reach their minimum investment limit.

Earlier Long-Term Incentive (LTI) programs 2007–2011 (not continued)

Previous LTI programs have been discontinued. However any grants issued will be governed by the respective policy until they have expired or vested in 2013 and 2014 respectively. For a detailed overview please see Note 21 (page 133).

Grant year	LTI program	Status
2007	Options	Expired in 2013
2008	Performance Share Awards	Exercised in 2010
2009	Restricted Stock Units (Executive Committee)	Exercised in 2011
2009	Restricted Stock Units (Senior Management)	Exercised in 2012
2010	Performance Share Awards	Exercised in 2013
2011	Performance Share Awards	Exercisable in 2014

Stock options (not continued)

In 2007, members of senior management received a portion of their compensation in the form of options to purchase shares in OC Oerlikon Corporation AG, Pfäffikon, with a blocking period of one, two, three or four years. Holders of these options are entitled to purchase one share for each option held. The value of the options at year-end was calculated using the Black-Scholes valuation model and a fair value of CHF 67. No options have been granted after 2007 and per year-end all 37 128 remaining options expired.

Performance Share Awards (PSA, not continued)

In 2011, the CEO, members of the Executive Committee and senior management could receive a portion of their compensation in the form of awards of OC Oerlikon Corporation AG, Pfäffikon, stocks, which are subject to performance conditions and a vesting period of three years. The performance conditions consist of the cumulative economic profit (Oerlikon Value Added) over a three-year period of the respective business in which participants operate. Their achievement determines the effective number of total Performance Share Awards (PSA) that are converted into shares.

Each target has a lower threshold, below which no Performance Share Awards (PSA) are converted into stocks, and an upper threshold, above which no additional stocks are granted. The number of PSA cannot exceed 200 % of the target number. Upon vesting, the effective number of PSA is converted into shares.

Compensation 2013 – Executive Committee

The compensation system for Global Leaders, including members of the Executive Committee, consists of a base salary, expense allowances, a performance-related Short-Term Incentive (STI) and a performance-related Long-Term Incentive (LTI). The mix of fixed and variable compensation elements places an emphasis on performance-based, medium- to long-term variable compensation. In 2013, the proportion of variable compensation of members of the Executive Committee was between 61 % and 90 % of base salary for the target STI and between 44 % and 133 % of base salary for the target LTI.

The base salary is determined primarily by the executive's tasks, responsibilities, skills and managerial experience, as well as market conditions, and is paid in cash. It was benchmarked with data from Towers Watson and Mercer against comparable positions in companies of comparable size in terms of revenue, employees and geographical scope that are operating in the general industry in some of the major markets in which we operate – including Switzerland, Germany, Italy and the USA. Among other companies, Towers Watson and Mercer also provide other compensation services to the Oerlikon Group and its subsidiaries.

No members of the Executive Committee were present when decisions on Executive Committee compensation were made.

For the Executive Committee, the accrued payout for the STI 2013 is 100%. The payout of the STI 2012 reached 106%.

The payout estimate per year-end was 200% for the LTI grants 2011 and 2012 and 80% for the 2013. These programs will vest in 2014, 2015 and 2016 respectively at the actual performance levels at that time.

The total compensation for all members of the Executive Committee in 2013 amounted to CHF 9.9 million. The highest compensation paid to an individual member of the Executive Committee was CHF 6.9 million.

Compensation of members of the Executive Committee

in CHF 000	Salary	STI 2013	LTI grant 2013 ¹	Pension fund	Other compensation ²	Contractual Payment ³	Total compensation 2013	Total compensation 2012 (restated)
Total compensation of the Executive Committee	1 530	833	475	274	51	6 690	9 852	9 488
of which, highest individual compensation: Dr. Michael Buscher (former CEO)	176	–	–	48	9	6 690	6 923	4 197

¹ The Executive Committee was granted 47 506 PSA under the LTI 2013 program. The grant is based on a fair value at grant date of CHF 11.1. In previous years, disclosure used an accounting perspective that presented the costs of all grants for the reporting period. In preparation for a binding vote on variable compensation, disclosure is changed to present the total value of grants issued in a reporting period. The effect of this change on the reported numbers of the previous year amounts to a reduction of CHF 0.2 million of the total compensation of the Executive Committee and an increase of CHF 0.7 million of the highest paid member, which is reflected in the table above.

² Other compensation includes expense and car allowances.

³ This payment was due to the end of Dr. Michael Buscher's employment on March 14, 2013.

Members of the Executive Committee did not receive any fees or other remuneration for additional services to OC Oerlikon or its subsidiaries in the 2013 business year. Neither OC Oerlikon nor its subsidiaries granted any guarantees, loans, advances or credit facilities to members of the Executive Committee or related parties in 2013.

Employment contracts of members of the Executive Committee no longer contain any provisions relating to severance payment or change of control. The employment contracts of Executive Committee members are of unlimited duration and end automatically when the member reaches the age of 62. The contracts provide for a notice period of 12 months.

During 2013, no compensation was paid to former members of the Executive Committee, either by OC Oerlikon Corporation AG, Pfäffikon, or by any other company of the Oerlikon Group.